TREASURY DEPARTMENT
Washington, D. C.

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STATEMENT BY THE HONORABLE PAUL W. EGGERS
GENERAL COUNSEL OF THE TREASURY
BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE
ON H. R. 13252
ON WEDNESDAY, OCTOBER 1, 1969
AT 10:00 A. M. (EDT)

SUMMARY

Prompt enactment is urged of H. R. 13252, the Coinage Act of 1969, legislation which has been endorsed by the Joint Commission on the Coinage, a non-partisan body adopted by law to advise the President and the Congress on silver and coinage matters.

Under this proposed legislation the Secretary of the Treasury would be granted authority to (1) mint a non-silver cupro-nickel half dollar, (2) mint a non-silver cupro-nickel dollar coin, and (3) transfer 2.9 million rare silver dollars now held in the Treasury to the Administrator of General Services Administration for sale to the public.

Mr. Eggers points out that the present 40 percent silver Kennedy half dollar has not circulated sufficiently and there is need for a circulating half dollar which can only be met by minting a non-silver coin.

Mr. Eggers stresses the advantages of using cupro-nickel rather than silver for this coin. He pointed out that only a non-silver dollar coin would actually circulate, and the non-silver dollar coin would mean a far greater monetary return to the Government. By contrast, he says, the use of surplus silver for dollar coins would mean an increase in silver imports together with a larger balance of payments deficit, and higher prices for important consumer products.

Treasury's current surplus holdings of silver in a form available for market sale through 1970 totals about 100 million ounces.

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Mr. Chairman:

I welcome this opportunity to urge the prompt enactment of H.R. 13252, the Coinage Act of 1969. Before setting forth the reasons why the Treasury Department considers the prompt enactment of this legislation to be strongly in the public interest let me briefly review the procedures under which the Administration's coinage legislation was developed.

In March of this year Secretary Kennedy established a special Task Force of Treasury officials to review all major silver and coinage issues and recommend appropriate administrative actions and where necessary new legislation. I had the honor to act as Chairman of this group. In early May the Task Force completed its study and presented a report to the Secretary outlining its recommendations.

The recommended program was then reviewed by and received the full approval of the Joint Commission on the Coinage, a non-partisan body established by law to advise the President and the Congress on silver and coinage matters. As you know, this 24-member Commission includes 12 Members of Congress, the Chairman and ranking minority member of the Senate Banking and Currency Committee, 4 members of the Senate appointed by the

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President of the Senate, the Chairman and ranking minority member of the House Banking and Currency Committee and 4 members of the House of Representatives appointed by the Speaker of the House of Representatives, 4 members from the Executive Branch -- the Secretaries of the Treasury and Commerce, the Director of the Budget and the Director of the Mint, and 8 public members appointed by the President.

The administrative actions endorsed by the Commission were immediately put into effect by Secretary Kennedy. These were a lifting of the coin melting ban and a reduction in the weekly sale of silver through the GSA from 2 to 1-1/2 million ounces. The legislation endorsed by the Commission is now before your Committee as H.R. 13252.

Under provisions of this legislation the Secretary of the Treasury would be granted authority to:

(1) Mint a non-silver cupro-nickel half dollar

(2) Mint a non-silver cupro-nickel dollar coin, and

(3) Transfer the approximately 3 million rare silver dollars now held in the Treasury to the Administrator of General Services for sale to the public in the manner recommended by the Joint Commission on the Coinage.

The Administration's request for authority to mint a non-silver half dollar is based on the conclusion that there is an important commercial need for an adequately circulating half dollar that can only be met through the minting of a non-silver coin. I think the most convincing argument for granting the Treasury this new authority is the fact that only a very small percentage of roughly 1-1/4 billion silver half dollars (both 40 per cent and 90 per cent silver) minted since 1963 are actually circulating.

Well over 200 million ounces of silver have already been used to mint this coin. This is equal to the total amount of silver mined in the United States since 1963. As Secretary Kennedy pointed out in his recent statement to the Coinage Commission the 40 per cent silver half dollar, on our past experience, is simply a losing proposition. The realistic choice we face is either to abandon this coin altogether or mint it of the same cupro-nickel clad material now used in dimes and quarters. We strongly recommend the latter alternative.

A second major provision of the Administration's coinage bill would authorize the Secretary of the Treasury to mint cupro-nickel dollar coins of the same clad material now used in dimes and quarters. Before making this recommendation the Treasury gave very careful consideration to the composition of the new dollar coin which we intend will bear a portrait of President Dwight D. Eisenhower. The principal issue was whether the coin should contain silver or be minted of the cupro-nickel clad material used in other coins. Here are the major reasons why we concluded that a cupro-nickel dollar coin is strongly in the public interest.

1. Only a non-silver dollar coin would actually circulate to meet commercial needs, which of course, is the basic purpose of coinage production. The experience with the Kennedy half dollar indicates conclusively that silver coins will not freely circulate in significant quantity. The Treasury Task Force on Silver Policy and the Joint Coinage Commission both concluded that there is a commercial need for a circulatir dollar coin that can only be met by a non-silver coin.

2. <u>The non-silver dollar coin would mean a far greater monetary return to the Federal Government than would be realized by a 40 per cent silver coin</u>. One bill now before the Congress which would authorize the minting of 300 million 40 per cent silver dollar coins over a three-year period would mean a total return through seigniorage of roughly $160 million. By contrast, the monetary gain by producing the same number of non-silver dollar coins under the Administration bill would be about $290 million. In addition, the Treasury could obtain as much as $50 million more in revenue from the continued sale of silver to the GSA, or a total of well over $300 million.

Moreover, if the cupro-nickel dollar coin were authorized the Treasury would not be limited to minting only 300 million of these coins. When production resources are in full gear that number could be minted in a single year, depending upon public demand. The total seigniorage therefore over a three-year period would unquestionably be far greater than if the dollar coin contained silver. And I might add that the seigniorage return to the Government reduces its public borrowing needs by an equivalent amount.

However, it should be emphasized that the major purpose of our coinage system is not to maximize seigniorage but to meet the country's need for an adequate supply of circulating coins. Seigniorage is simply the difference between the face value of a coin and the cost of its component materials. Including silver in a coin reduces seigniorage since silver is

obviously more costly than copper or nickel. Although those who advocate a silver dollar assert that this would be equivalent to selling the silver for $3.16 per ounce it is no more logical to put a sale price on the silver in the coin than it would be to compute a sale price on the copper and nickel in dimes and quarters.

3. <u>Using our surplus silver for dollar coins would significantly increase our balance of payments deficit</u>. Current annual domestic silver production is less than 40 million ounces compared with industrial consumption of about 145 million ounces. If weekly GSA silver sales are halted because all our remaining surplus silver is reserved for dollar coins, then silver imports for industrial use will have to increase substantially. We estimate that the resulting adverse effect on the balance of payments in the first year could be as much as $150 million.

4. <u>Using our surplus silver for dollar coins would mean higher prices for important consumer products</u>. Although the Treasury has taken a neutral position with respect to the price of silver, it should be realized that if Treasury silver sales were halted the price of silver would probably rise significantly. The principal industrial uses of silver are for film and electrical products. When the price of silver rose from the fixed $1.29+ per ounce to over $1.80 an ounce in 1967, the major film producers increased their prices substantially. A further increase in the price of silver would very likely mean higher costs to millions of consumers of film products including X-ray film. Similar effects would be felt by users of batteries and electrical products. It should be realized that the ultimate users of silver include virtually the entire American public.

5. The Administration bill is consistent with the recommendation made by the Joint Commission on the Coinage. The Joint Commission on the Coinage is a non-partisan body established by law to advise the President and the Congress on major coinage issues. The Commission carefully considered this matter and overwhelmingly recommended the minting of a non-silver dollar coin. We think the Commission's recommendation is well founded and that legislation authorizing cupro-nickel clad half dollar and dollar coins is in the best interest of the public as a whole. The portrait of President Eisenhower on a dollar coin would include him among the select group of great Americans honored on other circulating coins.

The enactment of H.R. 13252 in addition to providing the economy with needed circulating coinage would also be a major contribution toward alleviating the unstable conditions that have plagued the silver market for over two years. The sharp and largely irrational movements in silver prices both up and down have been stimulated by rumors and uncertainties regarding anticipated Government actions. We think the enactment of this bill will end this uncertainty by finally enabling the Treasury to clearly set forth just how much surplus silver it holds and how long and at what rate this silver will continue to be sold through open competitive bids.

As of August 31 the Treasury stock of silver bullion totaled 85 million ounces. Of this total about 40 million ounces was in a form readily available for market sale. In addition we estimate that the

Treasury's inventory of silver in coins that will be melted into bars totals about 60 million ounces, a figure we consider reasonably accurate within a 10 million ounce range. As of now, reflecting estimated changes in September, the Treasury's total stock of silver, including silver coins, is approximately 135 million ounces. This figure is entirely separate from the 165 million ounces of silver already set aside in the defense stockpile.

The enactment of H.R. 13252 would make surplus virtually all of the Treasury's remaining stock of silver except for the relatively small amount that would be required for minting of half dollars in a transition period. We estimate that the readily available silver surplus of about 100 million ounces is adequate to continue sales through the GSA at the current rate through 1970. In this period of adjustment producers and users of silver will have ample opportunity to gear their operations to eventual complete independence from Government sources of supply.

Let me now turn to the third major provision of H.R. 13252 which would authorize the transfer of the approximately 3 million rare silver dollars now held in the Treasury to the Administrator of General Services for sale to the public in the manner recommended by the Joint Commission on the Coinage. The value of these coins varies from month to month but at the present time we estimate that their numismatic value in the market ranges up to about $170 per coin depending upon the year of issue.

Since the summer of 1967 several silver dollar disposal plans have been discussed at length by the Joint Commission on the Coinage. At the

July 15, 1968 meeting an inter-agency Committee with members from the Treasury, the GSA, and the Smithsonian Institution was directed to study all the plans and present for the Commission's consideration, a plan which would (1) insure the public a widespread opportunity to obtain the coins, (2) obtain the maximum return on disposal for the Treasury, and (3) conduct the disposal operation in Government rather than private hands.

The Coinage Commission recommended such a plan, and the Treasury Task Force on Silver and Coinage Policy strongly endorsed the plan under which these remaining rare silver dollars would be disposed of by the General Services Administration through a shelf sale at approximately their current numismatic value. A summary of the plan is appended to my statement. The plan limits sales to any one buyer to one coin of each year of issue, or a maximum of ten coins. The buyer may tender a bid at a price higher than the posted price, and in the event orders for any one year of issue should exceed the supply, these bids will determine who will get the coins.

The major reasons for recommending your approval to go ahead with this plan are (1) after considerable study of many plans it appears to be the most equitable for both the public and the Government, and meets the requirements set forth by the Commission, (2) it has received much publicity and seems to be acceptable to a majority of the public and the numismatic experts with whom the inter-agency Committee consulted prior to its recommendation of the plan to the Committee, and (3) the

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appropriation required by GSA to carry out this plan would be small compared with the probable total receipts to the Treasury.

In summary, the Treasury believes that the prompt enactment of H.R. 13252 would be a major contribution to a more effective coinage system, facilitate an orderly transition of the silver market to complete dependence on private sources of supply, and make it possible for us to pay fitting tribute to a great American.